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1954
Federal Income Tax
SUGGESTIONS FOR FARMERS

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By V. B. Hart and M. Slade Kendrick

If you are a citizen or resident of the United States and had a gross income of $600 ($1,200 if 65 years of age or over) or more in 1954, you are required by law to file a Federal income-tax return.

Date Return Is Due

If at least two-thirds of your gross income is from farming and your business year starts January 1, you have two choices. Either:

1. File your return and pay the tax on or before January 31, 1955[1]; or
2. File an estimate of your tax and pay this amount by January 15, 1955 and then file your return and pay any balance due by April 15, 1955.

If your business year does not start January 1; you may file your return and pay the tax on or before the last day of the first month of the succeeding tax year; or you may file an estimate within 15 days and a return by the fifteenth day of the fourth month of the succeeding tax year.

Federal Forms Needed by Farmers

Obtain from the Director of Internal Revenue, or from your local Federal income-tax office, bank, or post office, two copies of each of the first three following forms. (One copy you file with the Director of Internal Revenue and the other you should keep for future reference.)

Form 1040F

You use form 1040F to summarize your farm receipts and expenses and to calculate your net farm profit.

Schedule D (Form 1040)

You use Schedule D if you had gains or losses from sales of property considered as sales of capital assets; such as sale of equipment, or sales of dairy cattle owned for at least 12 months and held for dairy or breeding purposes.

[1] At the time this bulletin goes to press, the Internal Revenue Service is investigating the possibility of administrative action to extend the date to February 15, 1955.

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Form 1040 (including one copy of the pamphlet containing official instructions for use of this form)

You transfer your net farm profit to form 1040 from form 1040F and use form 1040 to record other items of income and deductions and to calculate the tax.

Forms 1096 and 1099

You use forms 1096 and 1099 to report wages paid by you. If you paid any worker $600 or more during the year, you need two copies of form 1096 and also three copies of form 1099 for each worker paid $600 or more. These forms for reporting wages must be filed by February 28, 1955.

Form 1040ES

You use form 1040ES to file an estimate of your tax. You do not need this form if you file your return and pay your tax within a month after the end of your business year.

Form 1065

You use form 1065 for filing partnership reports.

Questions and Answers on Federal Income Tax

1. What options do farmers have with respect to methods of making out their Federal income-tax returns?

Farmers may make their returns either on the cash or accrual basis, but whichever method is adopted in filing their first return must be followed until the consent of the Commissioner is received to compute the income upon a new basis.

2. What is meant by a return on a cash basis?

A return on a cash basis includes all cash income received and all allowable expenses paid during the year, regardless of the time the income was earned or the expenses were incurred.

On a **cash** basis, gross income includes all cash received during the taxable year from sales of farm products whether produced in that or an earlier year, but does not include products sold on credit or changes in the inventory value of livestock and farm produce on the farm. The allowable business expenses include all expenses paid in **cash** during the year, for that year or any other year, but do not include expenses incurred and **not paid.**

If a return is made on a cash basis, the tables on pages 1 and 2 of form

1040F are filled in; if the return is made on an accrual basis, the tables on pages 2 and 3 are filled in.

3. What is meant by a return on an accrual basis?

A return on an **accrual** basis includes all income earned and all allowable expenses incurred for the taxable year, regardless of whether the income or the expenses were cash or credit.

On an **accrual** basis, gross income includes all income received or earned during the taxable year, from **that year's business only.** It includes cash sales, increases in the inventory value of livestock, supplies, and produce, plus any other income earned but not received. The allowable business expenses include all expenses for **that year's business only,** regardless of whether these expenses were paid, or incurred and unpaid.

4. Which method of reporting should a farmer use?

If a farmer has a relatively constant cash income from year to year, he will probably find the cash basis the more satisfactory. Growers of crops that may be stored and sold in the next tax year may find the accrual basis desirable, to prevent the possibility of having to pay a tax on two years' crops in one year.

Livestock farmers who raise their own dairy and breeding replacements usually find the cash basis desirable because of the provisions of the Internal Revenue Code dealing with the sale of capital assets.

5. What farm record books are available that will be of use in making income-tax returns?

The Farm Cash Account Book and the **Farm Inventory for Five Years,** published by the New York State College of Agriculture, are available at cost to New York farmers from the Department of Extension Teaching and Information at the New York State College of Agriculture, Ithaca, New York, or from the offices of county agricultural agents.

Steps in Making the Federal Return

6. How should a farmer go about making the Federal return?

Study the rest of this bulletin. Read carefully all instructions on forms 1040 and 1040F, especially those on page 4 of 1040F concerning **Expenses and Other Deductions.**

Fill in one set of forms 1040 and 1040F in pencil so that erasures can easily be made.

Also fill in one copy of Schedule D if you had sales that may be treated as sales of capital assets.

Check the figures and answers to all questions.

Make ink copies of all forms for the Director of Internal Revenue.

Keep the pencil copies of all forms. This is important. If the accuracy of your return is questioned by the Internal Revenue officials, you will need to know exactly what you put down in the copy which you filed. The pencil copy will be needed also in preparing your next Federal return, and will be useful in completing your State return.

Calculating the Farm Income on the Cash Basis

7. What items are included as farm income on form 1040F when reporting on the cash basis?

Farm income for tax purposes on the cash basis is the sum of the following four groups of items:

Sale of Livestock Raised (table 1, page 1, form 1040F). Includes all cash sales of livestock that have been raised, except sales of dairy, breeding, and work stock treated as sales of capital assets.

Sales of Produced Raised (table 2, page 1, form 1040F). Includes all crops and livestock products produced and sold for cash during the year.

Other Farm Income (table 3, page 1, form 1040F). Includes all miscellaneous cash receipts from such items as machine work, breeding fees, and the like.

Sale of Livestock and Other Items Purchased (table 4, page 1, form 1040F). Includes all profits from the sales of livestock and other items purchased during the current year or in previous years and that were sold for cash during the tax year, except sales **treated as sales of capital assets,** as discussed under question 9.

Calculating the Farm Income on the Accrual Basis

8. How does this procedure differ from making the return on the cash basis?

The gross income on the accrual basis includes all income received or earned during the taxable year **from that year's business only.** This income includes sales of farm products, for either cash or credit; income earned but not received; and increases in the inventory value of livestock, supplies, and other farm products.

The allowable business expenses include all expenses incurred during the taxable year **for that year's business only,** regardless of whether these expenses were paid in cash or incurred and unpaid.

As previously stated, when the return is made on the accrual basis, the tables on pages 2 and 3 of form 1040F are filled in but those on page 1 are not.

Reporting Farm Income

9. How are sales of draft, breeding, and dairy animals reported?

Taxpayers are allowed, under certain circumstances, to treat the gains and losses from sales of livestock held for draft, breeding, and dairy purposes (but not including poultry) as if they were derived from the sale of capital assets. Sales of this kind are reported on Schedule D (Form 1040) rather than on form 1040F, and, in most cases, only 50 percent of the gain from such sales is taxable income.

But if a sale of a draft, breeding, or dairy animal is to be treated as a sale of a capital asset, the following requirements must be met:

1. The animal must have **been owned for 12 months or more.**
2. The animal must have **been held for draft, breeding, or dairy purposes, and not primarily for sale in the ordinary course of the farm business.**

Example of sales that meet requirements

During 1954 a dairy farmer sold 6 cows, 2 heifers, and a 3-year-old bull. He had raised 4 of the cows for replacements for his dairy herd and had purchased the other 2 cows as replacements in 1952. He had raised the 2 heifers as replacements but they had failed to breed. The bull had been raised by the farmer and he had been using him for breeding purposes.

The sales of all the animals in this example could be treated as sales of capital assets because all the animals **had been owned for at least 12 months and all of them had been held for dairy or breeding purposes and not primarily for sale in the ordinary course of the farm business.** The sales of these animals would be reported on Schedule D and would not be shown on the farm blank form 1040F. (See illustration on page 30.)

Examples of sales that do not meet requirements

A dairy farmer who does not have a good milk market follows the practice of raising surplus dairy cattle for sale. In 1954 he "turned off" 6 two-year-old heifers, all of which had just freshened or were about to freshen. Also in the fall of 1953 this farmer purchased 4 cows and sold them in the spring of 1954.

Neither the sale of the 6 heifers nor the sale of the 4 cows in this example could be treated as a sale of a capital asset because **the heifers had been held primarily for sale in the ordinary course of the farm business, and the cows had not been owned for at least 12 months.** The sales of these animals would be reported as ordinary income on form **1040F and would not be shown on Schedule D.**

If the farmer were reporting on the cash basis, the sale of the 6 heifers would be entered under **"Sale of Livestock Raised"** on page 1 of form 1040F and the sale of the 4 cows under **"Sale of Livestock and Other Items Purchased"** on the same page. If the farmer were reporting on the accrual basis, the sales of both the heifers and the cows would be entered in the appropriate place on page 3 of form 1040F.

On either the cash or the accrual basis, all of the gain on the sales of these animals would be taxable instead of only 50 percent of it as is usually the result when sales of livestock are treated as sales of capital assets.

Figuring gains on livestock sales treated as sales of capital assets

In the first example given, the sales of the 6 cows, the 2 heifers, and the bull are treated as sales of capital assets. If the farmer were reporting on the cash basis, the gain to be reported on Schedule D on the 4 cows that were raised, and on the heifers and bull, which also were raised, would be the total sale price; because the cost of raising the animals had presumably been deducted in previous years as farm operating expenses. In reporting on the cash basis, the gain to be reported on Schedule D on the 2 cows purchased would be the difference between what the farmer paid for them (less depreciation allowable) and what he got for them. (See illustration on page 30.)

In reporting on the accrual basis, the gain to be reported on Schedule D on sales of animals treated as sales of capital assets is ordinarily the difference between the inventory value of the animals at the beginning of the year and the sale price. If, however, the taxpayer has elected to carry the animals in his depreciation schedule rather than in his inventory, the gain to be reported is the difference between the cost of the animals, or the value at which they were transferred at maturity from the inventory to the depreciation schedule (less depreciation allowable), and the sale price.

On either the cash or accrual basis, only 50 percent of the gain to be reported on Schedule D on the 6 cows, the heifers, and the bull in the example given would be taxable unless the farmer had enough losses on comparable transactions[2] to offset entirely the gain on the animals. Also, if the gains do not exceed the losses, **both** the gains and the losses should be entered at the top of Schedule D in the table headed **Property Other Than Capital Assets.** And in this table 100 percent of both gains and losses are included in calculating taxable income. Thus a loss becomes fully deductible.

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[2] Those covered by Section 1231 (formerly 117j) of the Internal Revenue Code and described on the back of Schedule D.

If a taxpayer claims that a sale of livestock meets the requirements for treatment as the sale of a capital asset, he should include an explanatory statement in his return to support his claim. For example, the farmer who sold the 6 cows, the heifers, and the bull should put the following statement on Schedule D, "Owned for at least 12 months and held for dairy or breeding purposes." (See illustration on page 30.)

10. How are purchases and sales of feeder cattle, feeder lambs, and feeder hogs handled?

On the cash basis these are entered under **Sale of Livestock and Other Items Purchased** on page 1 of form 1040F. But the taxpayer does not report the purchase of feeder livestock until making his return for the year in which he sold them; at which time he reports what he paid for them and what he got for them, and the difference as profit. This is another good reason for keeping careful financial records.

When reporting on the accrual basis, both **all purchases** and **all sales** of feeders occurring during the current year are reported in the appropriate columns of the farm inventory schedule on page 3 of form 1040F.

11. Should income from non-farm sources, such as dividends, or interest on a savings deposit, be reported?

Yes, but not on the farm blank. This income should be reported at the appropriate place on form 1040. But one should note instructions for the exclusion of $50 in dividends and for the credit of 4 percent on dividends.

12. Should the value of farm products consumed in the household be reported as income?

No. Nor is the cost of producing them a deductible expense.

13. How should the sale of timber be reported?

The simplest method, and the one recommended where only a small amount of timber is sold, is to enter the receipts as "wood and lumber" under **Other Farm Income** on page 1 of form 1040F. Labor and other expenses of getting out the timber are then included under farm expenses. A reasonable allowance for depletion of the original capital investment in the woodlot may also be entered as a farm expense.

If a farmer sells a large amount of timber, it may be to his advantage to use the method of reporting income from timber operations employed by commercial lumbermen. (It should be noted that under the 1954 revision of the Code, Christmas trees more than 6 years old are included in timber.) This method involves a number of complicated calculations and its use usually requires the assistance of an Internal Revenue official, accountant, or lawyer familiar with it.

14. How are Commodity Credit Loans reported?

When a farmer obtains a loan from the Commodity Credit Corporation and pledges his crops as security, the proceeds of the loan would not ordinarily be considered as income when received. However, the income-tax law permits the farmer to choose to include the amount of his loan in his income for **the year in which it is received,** instead of in the year in which the commodity is finally sold. But if the taxpayer once makes this choice, he must follow the same method in succeeding years, unless he gets permission from the Commissioner of Internal Revenue to change to a different method.

Commodity Credit Corporation loans are usually settled in one of two ways. The crop is either delivered in payment of the loan or the loan is paid off and the crop sold on the market. If, at the time the Commodity Credit Corporation loan is settled, more is realized from the commodity than the amount of the loan, the difference is included as gross income for the year in which the crop is sold.

15. If a growing crop is lost as a result of frost, storm, insect, or other damage, may a loss be claimed?

No.

16. If an insurance company pays a farmer for a hail loss on a crop, must he include this sum in his income?

Yes. Such compensation should be reported on form 1040F as "other farm income."

Casualty Losses

17. How are losses on farm buildings, machinery, and other farm business property, aside from livestock, resulting from fire, storm, or other casualty treated?

The amount of a farm-business loss of this kind is the original cost of the property plus the cost of improvements, less depreciation allowed or allowable, and less any insurance or other compensation received.

When reporting on the cash basis, such losses should be entered under **Other Deductions** in the **Summary of Income and Deductions** at the bottom of page 1 of form 1040F. When reporting on the accrual basis, the losses are reported in the **Summary of Income and Deductions** at the bottom of page 3 of form 1040F.

Each claim for loss should be accompanied by an explanatory statement, either on form 1040F or on an attached paper. The statement should show exactly what happened, that is a description of the property, date acquired, cost, subsequent improvements, depreciation allowed or allow-

able, insurance, salvage value, and deductible loss claimed.

18. How are death losses of livestock treated?

Cash basis. A farmer reporting on the cash basis may not deduct such a loss if he raised the animal, because the cost of raising it had been previously deducted as operating expenses.

If he purchased the animal, he may deduct the price paid, less depreciation and less any insurance or other compensation received. The method of reporting, however, depends on the cause of the death.

If the purchased animal was killed by a destructive force, such as lightning or an automobile, or by order of governmental authorities, and had been held for 12 months or more for breeding, draft, or dairy purposes, the loss should be reported on schedule D, taking into consideration any offsetting reimbursement received. Otherwise, the loss should be entered under **Other Deductions** in the **Summary** at the bottom of page 1 of form 1040F.

Accrual basis. When reporting on the accrual basis, a farmer would normally not make a special deduction for an animal that died, because such a loss would be offset by a reduction in the inventory at the end of the year. But any insurance or other compensation received for the loss should be reported on form 1040F as other farm income.

Non-recognition of gains from disposition of diseased livestock. Attention is called to the fact that gains realized on the sale or condemnation award of animals sold or destroyed by or on account of disease may, at your election, not be considered as taxable income, provided you purchase other animals as replacements. Such purchase must be made not earlier than the date of the destruction or sale or the earliest date of the threat or imminence of condemnation, and not later than 1 year after the year in which the gain is realized.

19. How are non-business losses from fire, storm, or other casualties treated?

If the taxpayer itemizes his deductions on a long-form 1040, he can deduct his net losses from the destruction or damage to non-business property, such as his home, his furniture and clothing, or his personal automobile caused by such sudden and unexpected natural, destructive forces as fire, storm, flood, explosion, or automobile accident. He may also deduct losses due to theft of non-business property, but not losses due simply to misplacing or losing articles. The amount of a non-business casualty loss is determined by comparing the difference between the fair market value of the property just before and just after the casualty with the original cost of the property less depreciation. The lower of these amounts, less

any insurance or reimbursement, is the deduction the taxpayer can take.

In case of damage to shrubs and ornamental trees, the amount of the loss is not limited to the investment in the trees or shrubs, but is measured by the difference in the value of the real estate before and after the casualty.

Deductions for non-business casualty losses and thefts should be entered at the appropriate place on page 3 of form 1040, accompanied by a statement showing how the losses were calculated.

Any excess of non-business losses over 1954 income is treated like a net operating loss; that is, it may be carried back for 2 years and if still not exhausted, carried forward for 5 years.

Reporting Farm Expenses

(On either cash or accrual basis)

20. What farm expenses are allowable (page 2, form 1040F) as deductions in arriving at the net farm profit?

In general, all expenses necessary to the operation of the farm as a business enterprise, except those for capital investments, are allowable as deductions in arriving at the net farm profit. These expenses, which are entered on the upper half of page 2 of form 1040F, and are discussed on page 4 of that form, include such items as hired labor, feed, fertilizer, seed, gas and oil used in the farm business, taxes and insurance paid on farm property (but not on farmer's dwelling), interest paid on mortgages and notes arising out of the farm business, cash rent paid, and milk hauling. A list of the more common deductible farm expenses is given at the end of this bulletin. (See also answer to question 27.)

Repairs are periodically recurring expenses and are to be distinguished from capital investments such as a new building or a new tractor. Major repairs on a building or on a piece of equipment that materially lengthen its life or change its use are capital investments rather than repairs. Thus a new tire for a tractor might be considered a repair and its cost charged off as an annual operating expense. The purchase of a new tractor, however, is a capital investment and its cost cannot be deducted in a single year but may be recovered over a period of years by claiming depreciation on it.

In a similar way the cost of repairing the roof or floor of a dairy barn might be charged off as an operating expense in the year the repair is made. But the cost of a new dairy barn or the cost of converting an old horse barn into a dairy barn is a capital investment, and its cost must be recovered over a period of years by charging off annual depreciation on it.

21. Must farm expenses be classified according to the headings on page 2 of form 1040F?

No. These headings are merely suggestions. Any other equally descriptive classification or grouping may be used. For example, if a farmer has been keeping a New York **Farm Cash Account Book,** he may use the classification found in that book. (See example on page 26.)

22. Is the farm home regarded as part of the farm business?

No. Expenses for the farm home, such as fuel, and insurance on the farmer's dwelling and contents, and expenses for groceries, clothing, and the like, are not deductible.

23. Is the value of a farmer's own labor or that of his wife or dependent minor children a deductible expense?

The value of the work of the operator and wife is not allowed as an expense.

Reasonable wages paid by a father to a minor child for work actually performed as a bona-fide employee in the farm business may be deducted as an expense. Such wages are included in the child's income and may result in the child having a taxable income of his own. If so, the father might lose the exemption.

24. May wages paid to hired labor and the value of board furnished hired labor be deducted as farm expenses?

Amounts paid for regular farm labor, piece work, contract labor, and other forms of hired labor are deductible.

The part of the board for hired labor which is purchased is a deductible farm expense, but the value of products raised on the farm and used in the board of hired labor is not a deductible expense.

Amounts paid to persons engaged in household work are not deductible except to the extent that the services of such persons are used in boarding and otherwise caring for hired farm laborers.

25. Is the cost of operating an automobile a deductible expense?

Only the part that is chargeable to the farm business.

26. How should costs of clearing and otherwise developing land for use in farming be treated?

Amounts spent for such items as clearing brush, trees, and stumps, leveling land, installing drains, and construction of terraces to make land **not previously used by the taxpayer for the production of crops or farm products or the grazing of livestock** suitable for such purposes, must be treated

as capital investments, rather than as current operating expenses. Also, not all capital investments of this kind are subject to an allowance for depreciation.

Certain expenditures for clearing and developing land for use in farming must simply be added to the cost of the land, and cannot be depreciated for income-tax purposes. For example, suppose a farmer paid $15,000 for a farm and then spends $2,000 to bulldoze the brush, stumps, and rocks out of a cut-over area at the back of the farm, and to level and fit it for use as crop land and pasture. He cannot take depreciation on the $2,000 spent on preparing the land for farming. But, if he should sell the farm, he can add the $2,000 to the original cost of $15,000 in calculating gain or loss on the sale.

A good general rule for determining whether an expenditure for preparing land for farming may be depreciated, is: "Cost of moving or removing dirt or that which nature put in or on it cannot be depreciated." Thus depreciation cannot be taken on such costs of clearing or developing land as construction of **earthen** terraces, drains, or ditches; or of removing brush, trees, rocks, or stumps. Depreciation may be taken, however, on costs incurred in installing other than earthen improvements, such as masonry dams and spillways; concrete culverts; tile drains; and metal or wood pipes, reservoirs, conduits, pumps, and flumes.

27. How should costs for soil and water conservation or for the prevention of erosion on land used in farming be treated?

Section 175 of the Internal Revenue Code of 1954 provides that a farmer may elect to treat certain expenditures for soil and water conservation, or control of erosion, on **land used in farming** as ordinary operating expenses, rather than as capital investments, as was required under previous law.

The kinds of expenditures for soil and water conservation and the prevention of erosion that may be treated as operating expenses are, in general, those **not subject to an allowance for depreciation,** such as leveling; grading; terracing; construction of earthen dams, ponds, and ditches; eradication of brush; and planting of windbreaks. Also included are special assessments of soil and water conservation, or drainage districts made by the districts to defray expenses for the above purposes.

The amount of expenditures for soil and water conservation and prevention of erosion that a farmer may treat as current operating expenses for any taxable year must not exceed 25 percent of the gross income derived from farming for that year. The remaining cost over the 25 percent figure will, however, be deductible in succeeding years, subject always to the 25 percent limitation in any later taxable year. The amounts so carried over may be continued without limit of time, until used up.

A taxpayer may without permission adopt and use this method of treating expenditures for soil and water conservation and prevention of erosion in his 1954 return (or in the first taxable year that begins after December 31, 1954, in which he pays or incurs such expenditures). But if he does adopt and use this method, he **must** continue to use it each year thereafter, **unless** a different method is authorized. Also, if the taxpayer does not adopt this method in 1954, or in the first year in which he might adopt it, he may adopt it later only with consent of the Secretary of the Treasury or his delegate.

Before he elects to treat heavy expenditures for soil and water conservation or the prevention of erosion as current operating expenses, rather than capitalizing them, a farmer should consider carefully the possibilities and consequences of selling his farm. Any amount in excess of the 25 percent maximum deduction allowable can be carried over into succeeding years, as explained above. However, it seems likely that in the event of the sale of the farm, any carry-over that has not been used up could not be added to the cost basis of the farm in calculating gain or loss on the sale. Consequently, the farmer would lose any benefit from the residual carry-over, unless he is engaged in farming on a farm other than the one on which the expenditures were made.

Social Security

28. How do Social Security Taxes on wages of hired workers affect the farmer's 1954 Federal income tax?

The 2 percent Social Security Tax **paid by the farmer** on wages of hired workers is a farm business expense and should be reported under farm expenses on form 1040F as "Social Security Tax on Wages."

The 2 percent **withheld from the workers** is actually a part of their wages the farmer used to pay **their Social Security Taxes.** This 2 percent should, therefore, be added to the "take-home" pay; and the gross amount of the wages should be reported on form 1040F as "Labor hired." (See illustration on page 26.)

Attention is called to the fact that beginning with January 1, 1955 any farm worker who receives $100 or more in a year from one farmer is covered by law for Social Security purposes.

29. Are farm operators covered by Social Security for the year 1954?

No. But beginning with January 1, 1955, any farm operator who makes $400 or more annual profit from farming will be covered by the law and required to pay Social Security Tax.

A farm operator will not pay any Social Security Tax on his own income from farming until he files his **1955** Federal income-tax return, which will

be early in 1956. The only action a farmer needs to take before 1956 with respect to Social Security Tax **on his own income from farming** is to get a Social Security card, unless he already has one from some other job.

Reporting Depreciation

30. On what things can a farmer deduct depreciation?

An allowance for depreciation of farm buildings, of improvements, such as fences and tile drains, and water systems, of machinery or other farm equipment of a permanent nature, and of commercial orchards and vineyards is deductible. Whether the return is made on **the cash or accrual basis,** depreciation on items of this nature is entered in the depreciation table on page 2 of form 1040F.

On the cash basis, depreciation may also be taken, in the depreciation table on page 2 of form 1040F, on animals kept for dairy, breeding, or work purposes if such animals were purchased, but not if raised. On the accrual basis, depreciation may be taken on such animals, whether raised or purchased, **if not included in the inventory on page 3 of form 1040F.**

Depreciation cannot be claimed on land, or on earthen improvements such as earthen dams, terraces, and drainage ditches; but can be claimed on certain other farm improvements. (See answers to questions 26 and 27.) When making out a return for the first time, therefore, it is necessary to divide the total value of the farm among land, the dwelling house, tenant houses, barns and other farm buildings, water systems, fences, tile drains, and orchards and vineyards (value of trees and vines only).

Depreciation on the farmer's dwelling or on household equipment is not a deductible expense. Depreciation on a tenant house, however, is deductible.

31. How should depreciation of farm buildings, water systems, fences, tile drains, machinery and equipment, livestock, orchards, and so forth be recorded?

Every farmer should have a permanent and continuous record of the individual items of property for which depreciation is claimed. This is necessary because the amount of space provided on page 2 of form 1040F for claiming depreciation may make it necessary to group some items together. The taxpayer should always be in position, however, to show a record of the individual items that make up any group.

A satisfactory and convenient way to provide a permanent and continuous record of the individual items for which depreciation is claimed is to use the **Farm Inventory for Five Years** referred to in the answer to question 5 of this bulletin.

32. What rates of depreciation are allowable on farm property?

There are no set or "official" rates of depreciation on farm property. The rate of depreciation is based on the estimated useful life **on the farm of the taxpayer** of the asset to be depreciated. For example, if the estimated life of a tractor on your farm is 10 years, and you are using the "straight-line" method of calculating depreciation, then the annual depreciation on the tractor would be one-tenth ($1/10$) of its cost (less any salvage value) or 10 percent.

33. What methods of calculating depreciation does the new Internal Revenue Code of 1954 prescribe?

For depreciable property acquired or constructed before January 1, 1954, the Code requires that the taxpayer continue to use the same methods of calculating depreciation he has been using, unless he has permission from the Commissioner of Internal Revenue to change to some other method.

The Internal Revenue Code of 1954 also provides for the use of two new methods that allow the taxpayer to recover a larger percentage of the cost of the asset during the earlier years of its life than results when using the "straight-line method" used by most farmers in the past. These two methods, which are known as the "declining balance method" and the "sum of the years-digits method," may be used only on property acquired after December 31, 1953, the original use of which begins with the taxpayer, and on property constructed, reconstructed, or erected after that date. Also, they may not be used, if the useful life of the property is less than 3 years.

How the declining balance method operates. The depreciation for each year is calculated by applying a fixed percentage rate to the book value of the asset. This rate cannot exceed twice the straight-line rate, computed without regard to salvage value. For example, the original cost of a tractor was $2,200 and its life use is estimated to be 10 years. Under the straight-line method the taxpayer would simply charge off 10 percent of $2,200 ($220) depreciation each year. But under the declining balance method, he may charge off 20 percent of $2,200 ($440) the first year; thus bringing the book value of the tractor down to $1,760. Then the next year he would charge off 20 percent of $1,760 ($352) and continue charging off 20 percent of the book value each year through the tenth year. (See illustration in table 1, page 17.)

The declining balance method of calculating depreciation always leaves a small unrecovered balance at the end of the useful years of life of the property. To allow the taxpayer to recover this amount, he may

change to the straight-line method at any time during the useful life of the property, provided there is no written agreement with the Internal Revenue Service to the contrary.

Table 1. Comparison of Three Methods of Calculating Depreciation on a Tractor Costing $2,200 and Estimated to Have Useful Life of 10 Years*

Year	Depreciation taken in each year		
	Straight-line	Declining balance	Sum of the years-digits
First Year	$220	$440	$400
Second Year	220	352	360
Third Year	220	282	320
Fourth Year	220	225	280
Fifth Year	220	180	240
Sixth Year	220	144	200
Seventh Year	220	115	160
Eighth Year	220	92	120
Ninth Year	220	74	80
Tenth Year	220	59	40
Total	$2,200	$1,963	$2,200
Unrecovered balance	$ 0	$ 237	$ 0

*To simplify example, it is assumed tractor has no salvage value.

How the sum of the years-digits method operates. In the example given above, the "sum of the years-digits" would be 10 (years of life of the tractor) + 9 + 8 + 7 + 6 + 5 + 4 + 3 + 2 + 1 = 55. Under this method, the tractor described above would be depreciated $^{10}/_{55}$ of $2,200 ($400) the first year, $^{9}/_{55}$ ($360) the second year, and so on until reaching $^{1}/_{55}$ ($40) for the tenth year. (See illustration in table 1.)

As shown in table 1, both the declining balance method and the sum of the years-digits method of figuring depreciation allow the taxpayer to recover a larger part of the cost of the asset during its earlier years of life than does the straight-line method. This might be of decided help to a person who has bought a large amount of new machinery or built a new barn and is carrying a heavy debt load. But taking a larger depreciation in the earlier years means leaving that much less for later years, when a person might have more need for deductions. So there can be no general rule as to which method is most advantageous to all farmers.

34. How is depreciation on orchards and vineyards treated?

Depreciation on commercial orchards and vineyards (investment in

trees or vines aside from the value of bare land) is allowed if on a reasonable basis. But if an orchard or vineyard has been grown by the present owner and the costs deducted on previous income-tax returns as **annual operating expenses**, then depreciation **cannot** be justified because the costs have already been charged off once.

There are no nation-wide or even state-wide "official" rates for calculating orchard or vineyard depreciation. The taxpayer should use his best judgment in estimating the probable length of the productive life of his orchard or vineyard.

35. How should costs of setting out new orchards and vineyards be treated?

Amounts spent in setting out new orchards and vineyards must be treated as capital investments, rather than as current operating expenses.

The taxpayer may treat as **either** capital investments subject to depreciation or as current operating expenses such expenditures during the development period of orchards and vineyards as those for cultivating, spraying, and taxes; and most farmers find it more convenient to treat such expenditures as current operating expenses.

36. How about special depreciation on new grain storages?

The taxpayer may elect to write off the cost of constructing, reconstructing, or erecting a grain storage, if built or erected in the calendar years 1953 to 1956 inclusive, over a 60-month period, instead of taking depreciation based on the estimated useful life of the storage. Also, the 60-month period may begin with the month following completion of the storage, or with the succeeding year.

If the taxpayer elects to use the 60-month period of taking depreciation, he must include a statement to that effect in his return for the first year it is used. Later he may shift to other recognized methods of calculating depreciation by filing a notice to that effect with the Secretary of the Treasury.

For the purpose of using the 60-month method of calculating depreciation, a grain-storage facility includes any corncrib, grain bin, or similar structure suitable primarily for the storage of grain, which is intended by the farmer to be used for the storage of grain produced by him. Also, altering or adapting another structure for grain storage or enlarging an existing grain-storage facility is considered as construction of a grain-storage facility.

37. How are "trade-ins" handled for depreciation purposes?

When an old machine is traded in for a new one, the cost of the new

machine, for depreciation purposes, is the depreciated cost or "book value" of the old machine plus the cash difference on the deal. For example, suppose a farmer has a tractor that he has written down to $500 on his income-tax returns. And suppose the dealer gives him a new tractor, with a price tag of $2,200 on it, for his old tractor and $1,400. The cost of the new tractor on which he would start charging off depreciation is $500 plus $1,400, or $1,900.

38. How does the taxpayer fill out the depreciation table on page 2 of form 1040F?

When reporting either on the cash or accrual basis, enter the information on farm buildings, machinery and tools, improvements such as water systems and tile drains, and orchards and vineyards, called for by the 7 column headings. (See example on page 26.) When reporting on the cash basis, enter also similar information on animals kept for dairy, breeding, or draft purposes **if such animals were purchased**, but not if raised. When reporting on the accrual basis, depreciation may be taken in the depreciation table on such animals, whether raised or purchased, **if they are not included in the inventory on page 3 of form 1040F.**

Miscellaneous Questions

39. Can a net farm operating loss for 1954 be carried back into previous years or forward into succeeding years?

Yes. If not offset by income from other sources, and if substantiated by income-tax returns filed in previous years or by other reliable records, such losses may be carried back for 2 years and then any remainder may be carried forward for 5 years.

For example, suppose a taxpayer had a net farm operating loss in 1954, and it was not offset by income from other sources, he may carry the loss back **into 1952** and any remainder into 1953 by filing an amended return and **Refund Form 843.** Any loss that cannot be made use of in this way because of insufficient income in 1952 and 1953 to provide a full offset may be carried **forward** for 5 years, first into 1955, then into 1956, and so forth until 1959. In carrying a farm operating loss **forward,** the taxpayer reports the loss on line 5 of Schedule C, page 2 of form 1040.

40. How should the sale of a farm be reported?

The method of calculating and reporting the gain or loss from the sale of a farm, including unharvested crops, is highly complicated and may affect the income tax of the owner by many dollars. It is, therefore, suggested that any person who sells a farm should get the assistance of an

Internal Revenue official or an accountant or lawyer skilled in income-tax matters, in making his return.

Attention is called to the fact that under certain circumstances a taxpayer may use a special "Installment Sales" method in figuring the taxable gain on the sale of a farm. This method may be used when the initial down payment does not exceed 30 percent of the sale price of the farm. The Installment Sales method gives the taxpayer relief from paying Federal income tax on income from the sale of a farm until he actually receives the income.

Attention is also called to the provision in the tax law concerning relief from tax on gains from sale of the taxpayer's residence when he buys another residence. Details of this provision are given in the instruction pamphlet which accompanies form 1040.

41. How do farm partnerships report?

A partnership, as such, does not pay any Federal income tax but must file an information return on form 1065, even though the firm had no net income. This form 1065 is simply to show what the income of the partnership is and how the income is divided between the partners.

The net farm profit of the partnership is calculated in the same way as that of an individual. Form 1040F may be used for this purpose, and a copy of this form should be attached to the partnership form 1065.

Each individual partner files his own form 1040 on which he enters, under Schedule C, page 2, of that form, his share of the partnership net farm profit. It is **not** necessary for the individual partners to file copies of either form 1065 or 1040F.

If the partnership had capital gains or losses, these are shown on form 1065 and each individual partner files a copy of Schedule D (Form 1040) on which he reports his share of them.

The ordinary landlord-tenant relationship does not constitute a partnership. Each party to a landlord-tenant farm contract should, therefore, file his return as an individual, reporting only his own share of the farm receipts and expenses.

42. How about the hired man's Federal income tax?

The law does not require a farmer to withhold the Federal income tax from wages paid farm help, but only to report amounts of $600 or more paid as wages (forms 1096 and 1099.)

Do not, however, confuse withholding for the **Federal income tax** with withholding for **Social Security Taxes.** It is the hired man's own responsibility to make his own Federal income-tax return and to pay his own Federal income tax. But it is the farmer's responsibility to make with-

holdings from wages to pay the hired man's Social Security Tax. (See answer to question 28.)

A hired man with gross income of $600 ($1,200 if 65 years of age or over) or more is required by law to file a Federal income-tax return. For Federal income-tax purposes, a hired man may exclude from his gross income the value of any meals or lodging furnished to him by his employer for the convenience of the employer, but only if –

(1) in the case of meals, the meals are furnished on the business premises of the employer, or

(2) in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment.

Calculating the Federal Income Tax

43. May a husband and wife split their combined income?

Yes. The law provides that for Federal income-tax purposes, a husband and wife may split their combined total income, provided they file a joint return. This means that a farmer and his wife may split the net farm profit between them rather than consider all of it as the income of the husband alone.

Splitting the income between husband and wife usually results in a lower tax than if all the income is considered as belonging to one of them. If, however, a husband and wife have unusually large deductions for medical expenses, it may pay to file separate returns.

When a joint return is filed, splitting the income is done on form 1040. When husband and wife sign a joint return, each assumes full legal responsibility for payment of the entire tax.

44. Must all the Federal income tax be paid at the time the report is filed?

Yes. Whether a return of estimated tax for 1954 is filed by January 15, or a final return is filed by January 31, the full amount of any tax shown to be due must be paid.

45. What is the personal exemption for the Federal income tax?

$600 for the taxpayer.

$600 for the wife of the taxpayer when a single return is filed and the wife has no income.

$600 for the wife of the taxpayer when a joint return is filed.

$600 for each dependent except wife.

A taxpayer of 65 years of age or more, and his wife if of that age, each

has an **additional** exemption of $600. A further exemption of $600 is allowed if the taxpayer is blind, and another exemption of $600 if his wife is blind.

46. Who may be claimed as a dependent?

A dependent may be a child of the taxpayer, any one of certain relatives, or a member of his household.

A dependent, except for the special situations of multiple support, must have received more than one-half of his support from the taxpayer, and must **also**, with the exceptions indicated below, have a gross income of less than $600.

The limitation of a gross income of less than $600 is not applicable to a **child of the taxpayer**, if the child is under the age of 19 or a student. Thus up to 19 years of age, the child may earn more than $600 without depriving his parent of the benefit of an exemption. But if he is 19 years old or more, he must be a student in order to have the privilege of earning $600 or more.

It should be noted, however, that the requirement that the dependent receive more than half of his support from the taxpayer holds regardless of the age, status as a student, or amount of income of a child. Thus a child who earns half or more of his own support cannot under any circumstances be claimed as a dependent. But in determining how much a child earned, scholarships for study at an educational institution are not considered as earnings.

47. What are the deductions on page 3 of form 1040?

Contributions. To Church, Red Cross, Community Chest, and other religious, charitable, or educational organizations. The deductions may not exceed 20 percent of gross income, except that gifts to churches, educational institutions, and hospitals may be 30 percent.

Interest. On personal notes, mortgage on the residence or other personal indebtedness. (Interest on short-term business loans or on a mortgage on the farm property is deductible on the farm blank.)

Taxes. On the farm house, State taxes on gasoline for personal use, personal share of automobile licenses, and the state personal-income and state unincorporated business taxes. (Taxes on farm property are deductible on the farm blank form 1040F.) Special assessments for improvements, such as drainage, paving, and the like, are not deductible.

Losses. Non-business losses from fire, storm, other casualty, or theft.

Medical and Dental Expenses. The net amount of such expenses in excess of 3 percent of the income shown in item 6 on page 1 of form

1040 (1 percent for medicine and drugs), and not compensated for by insurance or otherwise, is deductible up to a ceiling which, for a married couple, ranges from $5,000 to $10,000, depending on the number of their dependents. But if either of a married couple is 65 years old or more, the limitation of 3 percent does not apply. The limitation of 1 percent for medicine and drugs, however, is still applicable.

How to Take Deduction. The taxpayer should calculate his deductions to see whether it is to his advantage to itemize them or to take the standard deduction allowed.

Care of Children. A special allowance for widowed or divorced taxpayers who must work. (See instructions for form 1040.)

Example of a Farmer's Federal Income-Tax Return

A farmer, Robert E. Miller, who is 48 years old operates a dairy and general farm. He bought the farm in January 1944. He is married and has a 10-year-old son in grade school, a 16-year-old daughter in high school, and a 20-year-old son in college. He is also the sole support of his mother who received no other income. The son received $300 wages from his father for working on the farm during the summer and had $400 other income.

All of Mr. Miller's income was from the farm business, except for $53 received as interest on a mortgage. He kept his financial records in a **Farm Cash Account Book** and a **Farm Inventory for Five Years.** During the year he contributed $40 to the Community Chest, $150 to the church, $25 to a high-school scholarship fund, paid a State personal-income tax of $120, paid $70 real-estate taxes on dwelling house, and paid $15 for personal share of automobile licenses. He paid no other personal taxes, paid no interest on non-business debts, and had $75 of medical expenses.

A reproduction of page 1 of Federal form 1040F, as it would be filled in by Mr. Miller if he were making his return on the cash basis, is shown on page 25. If he were making his return on the accrual basis, he would fill in page 3 of form 1040F instead of page 1. (No reproduction of page 3 of form 1040F is shown in this bulletin.)

A reproduction of page 2 of 1040F, **Farm Expenses for Taxable Year and Depreciation,** as this farmer would fill in his expenses if he were making his return on either the cash or accrual basis, since he paid cash for all his farm expenses, is shown on page 26. The depreciation schedule on this page is filled in as Mr. Miller would do if reporting on the cash basis. Ordinarily, the only difference in the way the depreciation schedule would be made out if he were making his return on the accrual basis would be that the cows and the bull would be omitted, because on the

accrual basis depreciation on livestock would be automatically cared for in the inventory on page 3 of form 1040F.

Calculation of the Federal Income Tax

The calculation of Mr. Miller's Federal income tax is shown on pages 27, 28, 29, and 30 in the reproductions of the first, second, and third pages of Federal form 1040 and of Schedule D, which is a separate sheet used to report gains and losses from sales of capital assets.

The **net farm profit** of **$8,237,** as calculated on the cash basis, has been transferred from page 1 of form 1040F to Schedule C on page 2 of form 1040.

The **$53** of income the farmer received as interest on a mortgage has been entered in Schedule B on page 2 of form 1040.

The gains from the sales of the 6 cows, the 2 heifers, and the bull, treated as sales of capital assets are calculated on Schedule D. They amount to **$2,220.** (See illustration on page 30.)

This farmer sold an old tractor in 1954 for **$400.** He had purchased the tractor in 1948 for **$1,600** and taken **$960** depreciation on it, bringing the book value of the tractor down to **$640.** The difference between the book value of **$640** and the selling price of **$400,** or **$240,** is a **long-term capital loss** and is entered as such on Schedule D.

Subtracting the **$240** loss on the tractor from the **$2,220** gain on the cattle gives a net capital gain of **$1,980.** Of this amount, 50 percent, or **$990,** is taxable income and is entered as such under Schedule D, line 2, page 2 of form 1040. (See illustration on page 28.)

The net profit of **$8,237** from the farm business, the **$53** received as interest, and the **$990** of taxable gain from the sale of capital assets are then added and the total of **$9,280** entered as item 5 on page 1 of form 1040. Because this farmer had no income to be reported in item 2, the **$9,280** is his total income for Federal income-tax purposes and is entered again as item 6. (See illustration on page 27.)

Figuring the Tax

Because of the size of Mr. Miller's income and because he had not paid any unusually large medical expenses, it would be to the advantage of Mr. and Mrs. Miller to file a joint return and to split the income.

If the Millers' total income for tax purposes had been less than $5,000, they would have been permitted to use the tax table prepared by law and shown on the back of the instructions for form 1040. This table automatically allows about 10 percent of the total income for charitable contributions, interest on non-business indebtedness, personal taxes, casu-

FORM 1040 F
U.S. Treasury Department
Internal Revenue Service

SCHEDULE OF FARM INCOME AND EXPENSES — 1954

For Calendar Year 1954

Attach This Form to Your Income Tax Return Form 1040 and File It With the District Director of Internal Revenue for Your District.

Or other taxable year beginning ...., 1954, and ending ...., 195..

Name ROBERT E. AND ELIZABETH A. MILLER
Address HILLCREST, NEW YORK, R.D. 2
Location of farm or farms 1 MILE NORTH OF HILLCREST
Number of acres in each farm 245

If Your Accounts Are Kept on the Cash Method, Fill in Pages 1 and 2.
If You Keep Books on an Accrual Method and Desire to Use This Form, Fill in Pages 2 and 3 Instead.

FARM INCOME FOR TAXABLE PERIOD COMPUTED ON THE CASH RECEIPTS AND DISBURSEMENTS METHOD
(See Instructions on Schedule D (Form 1040) for tax treatment of certain livestock held for draft, breeding, or dairy purposes)

1. SALE OF LIVESTOCK RAISED			2. SALE OF PRODUCE RAISED			3. OTHER FARM INCOME	
Kind	Quantity	Amount	Kind	Quantity	Amount	Items	Amount
Cattle	20	$ 392	Grain		$	Mdse. rec'd for produce	$
Horses			Hay T.	18	392	Machine work	112
Mules			Cotton			Hire of teams	
Sheep			~~Tobacco~~ POTATOES BU.	3120	2800	Breeding fees	
Swine			Vegetables			Rent rec'd in crop shares	
Fur-bearing animals			Fruits and nuts			Wood and lumber	160
			Dairy products CWT.	3837	15732	Other forest products	
Chickens	—	348	Eggs	3325	1463	Agricultural program payments	
Turkeys			Meat products				
Ducks			Poultry, dressed			Patronage dividends, rebates or refunds, if not reported elsewhere in return	
Goats			Wool				
Bees			Honey				
Other (specify):			Sirup and sugar				
			Other (specify):			Other (specify): PASTURAGE	36
Total		$ 740	Total		$ 20387	Total	$ 308
		(Enter on line 1 of summary below)			(Enter on line 2 of summary below)		(Enter on line 3 of summary below)

4. SALE OF LIVESTOCK AND OTHER ITEMS PURCHASED

1. Description	2. Date acquired	3. Gross sales price (contract price)	4. Cost or other basis	5. Depreciation allowed (or allowable) since acquisition or March 1, 1913	6. Profit (column 3 plus column 5 minus column 4)
COWS (2)	11-5-54	$ 825	$ 700	$ —	$ 125
(OWNED LESS THAN 12 MONTHS — SOLD NOV. 15, '54)					
Total (enter on line 4 of summary below)					$ 125

SUMMARY OF INCOME AND DEDUCTIONS COMPUTED ON THE CASH RECEIPTS AND DISBURSEMENTS METHOD

1. Sale of livestock raised	$ 740	6. Expenses (from page 2)	$ 10968
2. Sale of produce raised	20387	7. Depreciation (from page 2)	2355
3. Other farm income	308	8. Other deductions (specify):	
4. Profit on sale of livestock and other items purchased	125		
5. Gross Profits	$ 21560	9. Total Deductions	$ 13323

10. Net farm profit (or loss) (line 5 minus line 9) to be reported in Schedule C Summary, Form 1040 ... $ 8237

16—73000-1

Page 1, Form 1040F

FARM EXPENSES FOR TAXABLE YEAR (See Instructions) Page 2

(Do not include personal or living expenses or expenses not attributable to production of farm income, such as taxes, insurance, repairs, etc., on your dwelling)

1. Items	2. Amount	3. Items (Continued)	4. Amount (Continued)
Labor hired (INCLUDES AMT.	$ 2660	Rent of farm, part of farm, or pasturage	$
Feed purchased WITHHELD FOR		Freight, yardage, express, and trucking	
Seed and plants purchased SOCIAL		Automobile upkeep (farm share)	318
Machine hire SECURITY)		~~Amortization of grain storage facilities (or such emergency)~~ DAIRY FEED	3812
Supplies purchased		~~Soil and water conservation (or such ...)~~ POULTRY FEED	661
Cost of repairs and maintenance		Other farm expenses (specify):	
Breeding fees		TRACTOR EXPENSES	276
Fertilizers and lime		DAIRY EXPENSES	342
Veterinary and medicine for livestock		CROP EXPENSES	505
Gasoline, other fuel and oil for farm business		MACHINERY EXPENSES	780
Storage and warehousing		BLDG. REPAIRS	284
Taxes ON FARM REAL ESTATE	280	SOC. SEC. TAX ON WAGES	47
Insurance on property (except your dwelling)		MISCELLANEOUS	691
Interest on farm notes and mortgages	312	(ABOVE EXPENSES TAKEN FROM	
Water rent, electricity, and telephone		FARM CASH ACCOUNT BOOK)	
Total of Columns 2 and 4 (enter on line 6 of summary on page 1 (cash method) or line 7, page 3 (accrual method))			$ 10968

DEPRECIATION (See Instructions)

1. Kind of property (If buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years) YEARS	7. Depreciation for this year
DAIRY BARN	'44	$ 6000	$ 1500	ST. LINE	40	$ 150
SILOS (2)	'44	1200	600	"	20	60
FENCES	'44	450	300	"	15	30
TRACTOR	'52	2250	450	"	10	225
AUTO (1/2)	'53	800	80	"	10	80
OTHER MACH.	—	6000	1000	"	12	500
TENANT HOUSE	'44	2000	500	"	40	50
TRUCK	'52	2000	400	"	10	200
* COWS (12)	'52	4500	1800	"	5	900
* BULL	'52	800	320	"	5	160

* BOUGHT JAN. 5, 1952

ABOVE VALUES TAKEN FROM RECORD IN "FARM INVENTORY FOR FIVE YEARS"

NOTE TO READER:

THIS FARMER HAD MORE THAN 12 COWS BUT COULD CLAIM DEPRECIATION ONLY ON THOSE HE HAD PURCHASED.

Total (enter on line 7 of summary on page 1 (cash method) or line 8, page 3 (accrual method)) $ 2355

Page 2, Form 1040F

FORM **1040**
U. S. Treasury Department
Internal Revenue Service

U. S. INDIVIDUAL INCOME TAX RETURN

FOR CALENDAR YEAR 1954
or other taxable year beginning ...., 1954, and ending 195

1954

PLEASE TYPE OR PRINT PLAINLY

Name — If this is a joint return of husband and wife, use first names of both: ROBERT E. AND ELIZABETH A. MILLER

Home Address — Street and number or rural route: R. D. 2
City, town, or post office; Postal zone number; State: HILLCREST NEW YORK

Your Social Security No. and Occupation | Wife's (Husband's) S. S. No. and Occupation

Do not write in these spaces
Serial No.
(Cashier's Stamp)

● ATTACH TAX RETURN COPIES OF FORMS W-2 HERE ●

Your exemptions

1. List your name. If your wife (or husband) had no income or if this is a joint return, list also her (or his) name:

A. ROBERT E. MILLER — 65 or over ☐ Blind ☐ — Number of exemptions for you ... 1
B. ELIZABETH A. MILLER — 65 or over ☐ Blind ☐ — Number of her (or his) exemptions ... 1

(Your wife's name—do not list if she is filing a separate return or if she had income not included in this return)

Check below if at the end of your taxable year you or your wife were—

On lines A and B below—
if neither 65 nor blind write the figure 1
if either 65 or blind write the figure 2
if both 65 and blind write the figure 3

C. List names of your children who qualify as dependents; give address if different from yours. CHARLES E. MILLER JOHN R. MILLER MARY A. MILLER — Enter number of children listed ⟶ 3

D. Enter number of exemptions claimed for other individuals listed in Schedule I on page 2 ... 1

E. Enter total number of exemptions claimed in A to D above ... 6

Your income

2. Enter your total wages, salaries, bonuses, commissions, and other compensation received in 1954, *before payroll deductions.* Persons claiming traveling, transportation, or reimbursed expenses, and Outside Salesmen, see instructions.

A. Employer's Name	B. Where Employed (City and State)	C. Total Wages, Etc.	D. Income Tax Withheld
		$	$
	Enter totals here ⟶	$	$

3. Less excludable portion received under wage continuation plans for sickness or injury. (See instructions) ... $

4. Balance (item 2 less item 3) ... $

5. If you received dividends, interest, or any other income (or loss), give details on page 2 ... Enter total here ⟶ 9280

6. **Adjusted Gross Income** (sum of items 4 and 5) ... Enter total here ⟶ $ 9280

How to figure the tax

(Unmarried or legally separated persons qualifying as "Head of Household," check here ☐. See instructions.)

(Surviving widows and widowers who qualify for special tax computation, check here ☐. See instructions.)

IF YOUR INCOME WAS LESS THAN $5,000—Use Tax Table *unless you itemize deductions.* This table allows about 10 percent of your income for charitable contributions, interest, taxes, medical expenses, etc. If your deductions exceed 10 percent, it will usually be to your advantage to itemize them and compute your tax on page 3.

IF YOUR INCOME WAS $5,000 OR MORE—Compute tax on page 3. Itemize or use standard deduction, whichever is to your advantage.

Tax due or refund

7. Enter your tax from the Tax Table, or from line 13, page 3 ... $ 965 44

8. Less: A. Dividends received credit (line 8 of Schedule J) ... $
B. Retirement income credit (line 10 of Schedule K) ...

9. Balance (item 7 less the sum of items 8A and 8B) ... $ 965 44

10. Enter your self-employment tax from line 36, separate Schedule C ...

11. Add amounts shown in items 9 and 10 ... $ 965 44

12. Credits for amounts paid on your 1954 income tax:
A. Tax withheld (in item 2, Column D above). Attach Forms W-2 ... $
B. Payments on 1954 Declaration of Estimated Tax. Indicate District Director's office where paid. ... $

13. If your tax (item 11) is larger than payments (item 12), the balance must be paid in full with return. **Enter such *balance* here** ... $ 965 44

14. If your payments (item 12) are larger than your tax (item 11) **Enter the *overpayment* here** ⟶ $

Enter amount of item 14 you want: Credited on 1955 estimated tax $............; Refunded $............

● Make check or money order payable to District Director, I. R. S., for amount, if any, shown in item 13.

Do you owe any other Federal tax? ☐ Yes ☒ No. If "Yes," to which District Director's office and what kind of tax.

Is your wife (or husband) making a separate return for 1954? ☐ Yes ☒ No. If "Yes," write her (or his) name.

Did you pay anyone for assistance in the preparation of your return? ☐ Yes ☒ No. If "Yes," enter his name and address.

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return.

Robert E. Miller — 1/20/55 — Elizabeth A. Miller — 1/20/55
(Signature of taxpayer) (Date) (Signature of taxpayer's wife or husband if this is a joint return) (Date)

● To assure split-income benefits, husband and wife must include all their income and, even though only one has income, BOTH MUST SIGN.

Page 1, Form 1040

Page 2

Schedule A.—INCOME FROM DIVIDENDS (First see Schedule J)

1. Enter amount of dividends reported on line 6 of Schedule J .... $
2. Enter total of all other dividends; itemize below, listing name of corporation and amount .... Enter total here→ $

Schedule B.—INCOME FROM INTEREST

Name of payer	Amount	Name of payer	Amount
F. F. STANFORD	$ 53		$

Enter total here→ 53

Schedule C Summary.—PROFIT (OR LOSS) FROM BUSINESS, FARMING, AND PARTNERSHIP

1. Business profit (or loss) from separate Schedule(s) C, line(s) 24 .... $
2. Farm profit (or loss) from separate schedule, Form 1040F 8237
3. Partnership, etc., profit (or loss) from Form 1065, Schedule K ....
   Partnership name and address........
4. Total of lines 1, 2, and 3 .... $ 8237
5. Less: Net operating loss deduction (Attach statement) ....
6. Net profit (or loss) (line 4 less line 5) 8237

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

1. From sale or exchange of property other than capital assets (from separate Schedule D) ....
2. From sale or exchange of capital assets (from separate Schedule D) 990

Schedule E.—INCOME FROM PENSIONS OR ANNUITIES (See instructions)

Part I.—General Rule

1. Investment in contract .... $
2. Expected return .... $
3. Percentage of income to be excluded (line 1 divided by line 2) .... %
4. Amount received this year .... $
5. Amount excludable (line 4 multiplied by line 3) .... $
6. Taxable portion (excess of line 4 over line 5) ....

Part II.—Where your cost will be recovered within three years and your employer has contributed part of the cost

1. Cost of annuity (amounts paid in) .... $
2. Cost received tax-free in past years ....
3. Remainder of cost (line 1 less line 2) .... $
4. Amount received this year .... $
5. Taxable income (excess of line 4 over line 3) ....

Schedule F.—INCOME FROM RENTS AND ROYALTIES

1. Kind and location of property	2. Amount of rent or royalty	3. Depreciation (explain in Schedule H) or depletion	4. Repairs (attach itemized list)	5. Other expenses (attach itemized list)
	$	$	$	$
1. Totals	$	$	$	$

2. Net profit (or loss) (column 2 less sum of columns 3, 4, and 5) ....

Schedule G.—INCOME FROM OTHER SOURCES INCLUDING ESTATES AND TRUSTS

1. Estate or trust (Name and address) ....
2. Other sources (state nature) ....

TOTAL INCOME (OR LOSS) FROM ABOVE SOURCES (Enter here and as item 5, page 1) .... $ 9280

Schedule H.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULE F

1. Kind of property (If buildings, state material of which constructed). Exclude land and other nondepreciable property	2. Date acquired	3. Cost or other basis	4. Depreciation allowed (or allowable) in prior years	5. Method	6. Rate (%) or life (years)	7. Depreciation for this year
		$	$			$

Sch. I.—EXEMPTIONS FOR INDIVIDUALS WITH GROSS INCOME OF LESS THAN $600, OTHER THAN WIFE AND CHILDREN

1. Name of individual. Also give address if different from yours	2. Relationship	3. Did individual have gross income of $600 or more in 1954?	4. If answer to 3 is "No" enter amount spent for individual's support in 1954 by— You (and your wife if this is a joint return). If 100% write "all"	Others, and by individual from own funds
HELEN A. MILLER	MOTHER	YES	$	$

Enter here and as item 1D, page 1, the number of individuals claimed above 1

NOTE.—If exemption is based on your being designated as the one to claim a dependent, the necessary multiple support agreement must be attached.

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Page 3

ITEMIZED DEDUCTIONS—FOR PERSONS NOT USING TAX TABLE OR STANDARD DEDUCTION.
If Husband and Wife (Not Legally Separated) File Separate Returns and One Itemizes Deductions, the Other Must Also Itemize.

Describe deductions and state to whom paid. If more space is needed, attach additional sheets

Contributions — $
Total Contributions (not to exceed 20 percent of item 6, page 1, except where contributions to churches, schools, and hospitals are included). (See instructions) .... $

Interest — $
Total Interest ....

Taxes — $
Total Taxes ....

Medical and dental expense *(If over 65, see instructions)*

Do not enter any expense compensated by insurance or otherwise	A. Medicine and Drugs	B. Other
1. Net Expenses (Attach itemized list)	$	$
2. Enter in Column A, 1 percent of item 6, page 1		
3. Enter in Column B, excess of Column A, line 1 over line 2		
4. Total of Column B, lines 1 and 3		$
5. Enter 3 percent of item 6, page 1		

6. Allowable amount (excess of line 4 over line 5). (See instructions for limitations) ....

Child Care — Expenses for care of children and certain other dependents (see instructions). Not to exceed $600. (Attach statement) ....

Losses from fire, storm, or other casualty, or theft — $
Total Allowable Losses (not compensated by insurance or otherwise) ....

Miscellaneous — $
Total Miscellaneous Deductions ....

TOTAL DEDUCTIONS (Enter on line 2 of Tax Computation, below) .... $

TAX COMPUTATION

1. Enter Adjusted Gross Income as shown in item 6, page 1 .... $ 9280

2. If deductions are itemized above, enter total of such deductions. If deductions are not itemized *and line 1, above, is $5,000 or more:* (a) married persons filing separately enter $500; (b) all others enter 10 percent of line 1, but not more than $1,000 928

3. Subtract line 2 from line 1. **Enter the difference here.** .... $ 8352

4. Multiply $600 by total number of exemptions claimed in item 1E, page 1. **Enter result here** 3600

5. Subtract line 4 from line 3. **Enter the difference here.** This is your **Taxable Income** .... $ 4752

6. If you are a single person, a married person filing separately, or a head of household— Single persons and married persons filing separately use Tax Rate Schedule I in the instructions to figure tax on amount on line 5; heads of household use Tax Rate Schedule II .... $

7. If this is a joint return, or if you qualify to file as a surviving widow or widower—
(a) Enter one-half of amount on line 5 .... $ 2376
(b) Use Tax Rate Schedule I in the instructions to figure tax on amount on line 7 (a) 482.72
(c) Multiply amount on line 7 (b) by 2 .... $ 965 44

8. If alternative tax is applicable, enter the tax from separate Schedule D .... $

Disregard lines 9 through 12, and copy on line 13 the same figure you entered on line 6, 7 (c), or 8, unless you used itemized deductions.

9. Enter here income tax payments to a foreign country or U.S. possession (Attach Form 1116) .... $

10. Enter here any income tax paid at source on tax-free covenant bond interest ....

11. Enter here credit for partially tax-exempt interest (See instructions for limitation) ....

12. Add the figures on lines 9, 10, and 11. **Enter the total here** .... $

13. Subtract line 12 from line 6, 7 (c), or 8, whichever is applicable. Enter difference here and as item 7, page 1 .... $ 965 44

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Page 3, Form 1040

SCHEDULE D
For use with Forms 1040, 1041, and 1065

U. S. Treasury Department—Internal Revenue Service

GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY

USE WITH INDIVIDUAL, FIDUCIARY, OR PARTNERSHIP RETURNS

1954

For Calendar Year 1954, or other taxable year beginning ...., 1954, and ending ...., 195

Name and Address: ROBERT E. AND ELIZABETH A. MILLER, HILLCREST, N.Y.

Check type of return filed: ☒ Form 1040 ☐ Form 1041 ☐ Form 1065

(I) PROPERTY OTHER THAN CAPITAL ASSETS

a. Kind of property (if necessary, attach statement of descriptive details not shown below)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price (contract price)	e. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (attach schedule)	f. Cost or other basis and cost of subsequent improvements (if not purchased, attach explanation)	g. Expense of sale	h. Gain or loss (column d plus column e less sum of columns f and g)
1.			$	$	$	$	$

2. Net gain (or loss). Enter here and on line 1, Schedule D, Form 1040, or as item 8 (a), page 1, Form 1041, or as item 11, page 1, Form 1065 .... $

(II) CAPITAL ASSETS

Short-Term Capital Gains and Losses—Assets Held Not More Than 6 Months

3.			$	$	$	$	$

4. Enter your share of net short-term gain (or loss) from partnerships and fiduciaries ....
5. Enter unused capital loss carryover from 5 preceding taxable years (Attach statement) ....
6. Net short-term gain (or loss) from lines 3, 4, and 5. Enter here and in Schedule D, Form 1041, or as item 26, page 1, Form 1065 .... $

Long-Term Capital Gains and Losses—Assets Held More Than 6 Months

7. * 4 COWS	RAISED	1-7-54	$ 1025	$ 0	$ —	$	$ 1025
* 2 COWS	1-5-52	"	800	240	600		440
* 2 HEIFERS	RAISED	"	295	0	—		295
* BULL	"	"	460	0	—		460
TRACTOR	1948	3-5-54	400	960	1600	LOSS →	240

8. Enter the full amount of your share of net long-term gain (or loss) from partnerships and fiduciaries ....
9. Net long-term gain (or loss) from lines 7 and 8. Enter here and in Schedule D, Form 1041, or as item 27, page 1, Form 1065 1980

*OWNED FOR AT LEAST 12 MONTHS AND HELD FOR DAIRY OR BREEDING PURPOSES

● LINES 10 THROUGH 25 NOT APPLICABLE TO FIDUCIARIES AND PARTNERSHIPS

Gain or Loss To Be Taken Into Account	a. Gain	b. Loss
10. Enter net short-term gain (or loss) from line 6	$	$
11. Enter net long-term gain (or loss) from line 9	$ 1980	$
Use lines 12 through 15 only if gains exceed losses in lines 10 and 11.		
12. Enter short-term gain (line 10, col. a) reduced by any long-term loss (line 11, col. b)	$	
13. Enter long-term gain (line 11, col. a) reduced by any short-term loss (line 10, col. b)	$ 1980	
14. Enter 50 percent of line 13	$ 990	
15. Enter here and on line 2, Schedule D, Form 1040, the sum of lines 12 and 14	$ 990	

Use lines 16 and 17 only if losses exceed gains in lines 10 and 11.

16. Enter the excess of losses over gains on lines 10 and 11 .... $
17. Enter here and on line 2, Schedule D, Form 1040, the **smallest** of the following: (a) the amount on line 16; (b) taxable income computed without regard to capital gains and losses and the deduction for exemptions; or (c) $1,000 .... $

COMPUTATION OF ALTERNATIVE TAX FOR INDIVIDUALS (Form 1040)

(See instructions on other side as to when the alternative tax applies)

18. Enter from page 3, Form 1040, the income from line 5 if separate return or line 7 (d) if joint return .... $
19. Enter amount from line 14, column a, above, if separate return, or half of such amount if joint return .... $
20. Balance (line 18 less line 19) .... $
21. Enter tax on amount on line 20 (Use applicable Tax Rate Schedule in Form 1040 Instructions) .... $
22. If joint return, multiply amount on line 21 by two .... $
23. Enter 50 percent of line 19 .... $
24. If joint return, multiply amount on line 23 by two .... $
25. Alternative tax (line 21 plus line 23 if separate return; line 22 plus line 24 if joint return). If smaller than amount on line 6 or line 7(c), page 3, Form 1040, enter this alternative tax on line 8, page 3, Form 1040 .... $

NOTE.—In lines 18 to 25 the treatment in the case of a joint return is also applicable to a return of a surviving widow or widower.

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Schedule D

alty losses, medical expenses, and miscellaneous deductions, and shows the amount of the tax due without any further computations. If the taxpayer's income is less than $5,000 and his expenditures and deductions for these items are more than 10 percent of his income, it will usually pay him to itemize them and to compute the tax on page 3 of form 1040 rather than to use the tax table.

If the taxpayer's income is $5,000 or more, he is not permitted to use the tax table but must compute his tax on page 3 of form 1040. But even if his income is $5,000 or more, he may, if single, or married and filing a joint return, either take a standard deduction of 10 percent of his income or $1,000, whichever is the lesser; or he may itemize his deductions, whichever is to his advantage.

Because the Millers' taxable income was more than $5,000, they were obliged to calculate their tax by filling in the schedule headed **Tax Computation,** which appears at the bottom of page 3 of form 1040. Also, because their expenses for charitable contributions, personal taxes, and the like did not amount to either 10 percent of their income or $1,000, it would be to their advantage to take the standard 10 percent deduction rather than to itemize their deductions. Page 3 of form 1040 is, therefore, filled in as it would be done to calculate the Miller's tax without using the tax table and without itemizing their deductions.

Check Sheet for Farm Expenses

Purchased feeds	
Dairy feed	$
Poultry feed	
Pig feed	
Calf starter	
Salt	
Minerals	
Hay	
Ensilage	
Feed grinding and mixing	
Farm wages	
Cash board of hired labor	
Piece work	
Pasture rent	
Storage	
Hired packing	
Liners and caps	
Farm-building repairs	
Shingles	
Roofing	
Lumber	
Window sash	
Hinges	$
Paint	
Lumber sawing	
Posts	
Nails	
Wire	
Tile drains	
Water-system repairs	
Electrical supplies	
Commissions	
Trucking	
Freight	
Maple-sirup supplies	
Machinery repairs	
Plow points	
Drag shoes	
Canvasses	
Slats	
Bolts	
Welding	
Blacksmithing	
Castings	

Check Sheet for Farm Expenses (concluded)

Bedding	$
Baby chicks	
Custom hatching	
Brooder fuel	
Truck expenses	
Gas, oil, and grease	
License	
Spark plugs	
Insurance	
Tires	
Repairs	
Battery	
Chains	
Anti-freeze	
Machine hire	
Threshing	
Combining	
Silo filling	
Baling	
Field chopping	
Gas and oil for farm use	
Automobile costs (farm share)	
Electricity (farm share)	
Telephone (farm share)	
Livestock expenses	
Veterinary fees	
Medicines	
Vaccines	
Stock tonics	
Disinfectants	
Fly spray	
Clipping	
Cow-testing dues	
Registrations, transfers	
Breed-association dues	
Breeding fees	
Artificial insemination	
Bee supplies	
Sheep shearing	
Egg cases	
Cash rent	
Water rent	
Strainer pads	
Rubber hose	
Inflations	$
Dilators	
Sirup pails	
Sap spouts	
Crop expenses	
Seeds	
Plants	
Fertilizer	
Lime	
Spray materials	
Spray-ring fees	
Dusts	
Seed treatments	
Twine	
Tie wires	
Crates and baskets	
Bags and barrels	
Milk pails	
Milk cans	
Can rental	
Milk hauling	
Ice	
Sawdust	
Brushes	
Washing powder	
Hay rope	
Small hand tools	
Hardware	
Farm papers	
Stamps and stationery	
Account books	
Farm Bureau dues	
Grange dues	
Marketing-association dues	
Advertising	
Farm real-estate taxes	
Travel on business	
Interest on farm-business debts	
Fire insurance (except on dwelling)	
Crop insurance	
Livestock insurance	
Compensation insurance	

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